

Message Text

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FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08

CEA-02 L-03 H-03 DODE-00 PA-03 USIA-15 PRS-01 FS-01

ABF-01 AGR-20 RSR-01 INT-08 /208 W

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FM AMEMBASSY NOUAKCHOTT

TO SECSTATE WASHDC 1368

INFO AMEMBASSY DAKAR

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY RABAT

USINT ALGIERS

AMEMBASSY BAMAKO

AMEMBASSY TANANARIVE

AMEMBASSY TRIPOLI

AMEMBASSY TUNIS

C O N F I D E N T I A L SECTION 1 OF 2 NOUAKCHOTT 644

EO 11652: GDS

TAGS: EGEN EFIN MR

SUBJECT: THE MORNING AFTER--MAURITANIAN ECONOMIC PROBLEMS IN
WAKE OF NEW CURRENCY.

REF: NOUAKCHOTT 569

SUMMARY. EXCHANGE OF CENTRAL AFRICAN FRANCS FOR NEW
MAURITANIAN CURRENCY, THE OUGUIYA, PROCEEDS APACE. UNCERTAINTY
STILL PREVAILS ABOUT WHAT IT ALL MEANS DESPITE PRESIDENTIAL
ASSURANCES THAT CHANGEOVER WILL HELP GOVT TO HELP CONSUMER BY
LOWERING IMPORT PRICES AND TO HELP COUNTRY BY SPURRING INVESTMENT
IN DEVELOPMENT PROJECTS. CURRENCY IN CIRCULATION TODAY MAY
BE AS MUCH AS ONE-THIRD GREATER THAN YEAR AGO. PRIVATE
CONFIDENTIAL

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BUSINESSMEN ARE BEING "ENCOURAGED" GROUP SELVES INTO LARGE
IMPORTING SOCIETIES. NO PROGRESS YET ACHIEVED IN CONVINCING
IRON AND COPPER MINING COMPANIES, WHICH EARN MORE THAN 80
PERCENT OF COUNTRY'S FOREIGN EXCHANGE, TO DEPOSIT ALL THEIR

EARNINGS IN NEW CENTRAL BANK. GOVT'S FAILURE TO GET ITS WAY ON THIS ISSUE COULD BECOME POLITICALLY EMBARRASSING. END SUMMARY.

1. ON JULY 4 SPEAKING A WEEK AFTER ISSUANCE OF MAURITANIA'S NEW NATIONAL CURRENCY, THE OUGUIYA, PRESIDENT OULD DADDAH MADE PUBLIC ADDRESS ASSURING POPULACE THAT GOVT WOULD PROTECT ITS INTERESTS BY NOT ONLY ASSURING SUPPLY OF NECESSARY IMPORTS BUT BY ARRANGING LOWER PRICES. HE ALSO PLEDGED GIRM WOULD INVIGORATE THE ECONOMY THROUGH ENCOURAGEMENT OF INVESTMENT IN INDUSTRIAL AND AGRICULTURAL DEVELOPMENTAL PROJECTS. SINCE THEN THERE HAS BEEN LITTLE CONCRETE EVIDENCE OF HOW THE GIRM WILL BE ABLE CERCYB THESE PROMISES.

2. DISCUSSIONS WITH MAURITANIAN OFFICIALS, BANKERS, AND BUSINESSMEN INDICATE UNCERTAINTY OVER WHAT GOVT CAN DO TO REGAIN LOCAL CONFIDENCE THEY CLAIM WAS LOST DURING THE EIGHT MONTHS SINCE OULD DADDAH FIRST ANNOUNCED THIS COUNTRY WAS TO HAVE ITS OWN CURRENCY.

3. ON OTHER HAND SOME OFFICIALS ARGUE THAT LACK OF CONFIDENCE HAS BEEN OVERSTATED. NEW CENTRAL BANK DIRECTOR, PRESIDENT'S BROTHER AHMAD OULD DADDAH, FOR EXAMPLE, COMMENTS THAT PRESS REPORTS CONSISTENTLY EUAGGFRATI G DIMENSIONS OF THE CAPITAL FLIGHT FROM MAURITANIA SINCE LAST DECEMBER. HE NOTES IN SUPPORT HIS THESIS:

A. MORE THAN 2.2 BILLION CFA HAVE ALREADY BEEN EXCHANGED FOR OUGUIYA, OUT OF TOTAL MONEY SUPPLY IN CIRCULATION LAST NOVEMBER OF SOME 3.5 BILLION CFA.

B. OWING TO GOVT'S DELIBERATELY LIBERAL IMPORT POLICY DURING PAST SIX MONTHS, THERE WAS SURGE IN IMPORTS. IN EFFECT BUSINESS COMMUNITY INDULGED ITSELF IN LAST ORGY OF DEFRAUDING THE GOVT WITH FALSE CUSTOM DOCUMENTS ON CFA TRANSACTIONS. GOVT WINKED AT IMPORTERS CLAIMING MARKEDLY LOWER THAN ACTUAL VALUE FOR PRODUCTS RECEIVED FROM THEIR FOREIGN, LARGELY SENEGAL-BASED SUPPLIERS. THUS INVENTORIES ARE AT HIGH LEVEL (TRUE) AND MONEY WHICH HAD CONFIDENTIAL

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SUPPOSEDLY FLED HAS IN THE MAIN ALREADY COME BACK IN FORM THESE IMPORTED GOODS.

4. LOCAL BANKERS CONCUR THAT OULD DADDAH'S COMPLAINT OVER MISLEADING PRESS REPORTS IS TO DEGREE JUSTIFIED. WHEN "MONITEUR AFRICAINE" FOR EXAMPLE STRESSED THAT ONLY SOME 200 MILLION CFA HAS BEEN EXCHANGED FOR OUGUIYA, IT OVERLOOKED FACT THIS AMOUNT REPRESENTED ONLY THE AUTOMATIC CONVERSION OF CFA HELD IN PRIVATE DEPOSIT ACCOUNTS WHEN TRANSACTIONS WERE FROZEN ON JUNE 28. SUCH ACCOUNTS HAD BEEN NOTABLY LOW FOR PAST SIX MONTHS AND IN ANY CASE REPRESENTED LESS THAN 10 PERCENT OF MONEY IN CIRCULATION. BANKERS ACCEPT CENTRAL BANK'S STATEMENT THAT 2.2 BILLION CFA HAVE BEEN EXCHANGED. THEY CAUTION

ONLY THAT THIS FIGURE PROBABLY INCLUDES SUBSTANTIAL AMOUNT OF PUBLIC FUNDS AND IS NOT PER SE RELIABLE INDICATOR OF POPULAR CONFIDENCE IN THE NEW CURRENCY.

5. BIAO DIRECTOR, THIS CAPITAL'S MOST EXPERIENCED LOCAL BANKER NOTES THAT GOVT'S RELAXATION OF CREDIT POLICY SIX MONTHS AGO LED TO INCREASE OF MONEY IN CIRCULATION TO SOME 4.5 BILLION CFA AS OF MAY 1973, NEARLY 30 PERCENT MORE THAN AT SAME TIME IN 1972. ASKED PRIVATELY WHAT TOTAL AMOUNT OUGUIYA GIRM INTENDED ISSUE, CENTRAL BANKER OULD DADDAH SAID PERHAPS TOTAL OF 800 MILLION OUGUIYA, I.E. FOUR BILLION CFA. PRIVATE BANKERS MAINTAIN THIS AMOUNT IN CIRCULATION COULD BE INFLATIONARY GIVEN PRESENT STATE OF ECONOMIC DOLDRUMS RESULTING FROM FOUR YEARS OF DROUGHT.
MURPHY

CONFIDENTIAL

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6. DESPITE PRESIDENTIAL CLAIMS THAT GOVT WILL NOW BE IN BETTER POSITION SPUR INVESTMENT WITH OWN CURRENCY, ALL CONCUR THAT GOVT'S TOUGHEST PROBLEM WILL CONTINUE TO BE PERENNIAL ONE OF FINDING DEVELOPMENT PROJECTS IN NEAR FUTURE WORTH PROMOTING, BE THEY INDUSTRIAL OR AGRICULTURAL. FOR EXAMPLE, GOVT NEGOTIATIONS

WITH US FIRM FOR CONSTRUCTION OF SUGAR REFINERY TOOK EIGHT MONTHS TO NEGOTIATE. REFINERY MAY WELL EVENTUALLY EMPLOY AS MANY AS 700 WORKERS IN NOUAKCHOTT BUT WILL NOT BE OPERATIONAL PRIOR MID-1975. FEW OTHER PROJECTS SO VIABLE ARE ON THE DRAWING BOARDS.

7. REMITTANCES. ONE HIDDEN STRENGTH IN THIS ECONOMY, IMPOSSIBLE TO QUANTIFY BUT CONSIDERED IMPORTANT, HAS BEEN FAMILY CONFIDENTIAL

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REMITTANCES FROM MAURITANIAN BUSINESSMEN AND WORKERS ABROAD. CONSENSUS IS THAT REMITTANCES UNLIKELY BE AFFECTED BY CHANGEOVER SINCE THEY ARE SENT TO ASSIST IMMEDIATE FAMILIES RATHER THAN FOR INVESTMENT IN EXPECTATION OF RECONVERSION TO OTHER CURRENCIES.

8. FUTURE SHAPE OF BUSINESS COMMUNITY. TO BENEFIT CONSUMER, GOVT PLANS ASSIST LOCAL BUSINESSMEN OBTAIN LOWER PRICES FOR IMPORTS. ONE STEP IN THIS PROCESS WILL BE TO SEEK ELIMINATION FOREIGN MIDDLEMEN. INTEGRAL TO THIS PROGRAM WILL BE SHARP REDUCTION IN NUMBERS OF INDIVIDUAL MAURITANIAN BUSINESSMEN WHO WILL BE GIVEN ACCESS TO FOREIGN EXCHANGE. CREATION OF LARGE IMPORT SOCIETIES

HERE, AUTHORITIES ASSUME, WILL MAKE THIS MARKET MORE INTERESTING TO FOREIGN MANUFACTURERS LEADING THEM TO ABANDON THEIR PRESENT RELIANCE ON "NON-PRODUCTIVE" MIDDLEMEN AND DEAL DIRECTLY WITH MAURITANIANS. IN HIS SPEECH PRESIDENT STATED GIRM INTENDED AVOID CREATING STATE TRADING SOCIETIES BUT WOULD ENCOURAGE FORMATION OF LARGE PRIVATE SOCIETIES OF IMPORTERS. GOVT REPORTEDLY INTENDS PRESERVE COMPETITION BY CREATING AT LEAST TWO TRADING COMPANIES FOR EACH MAJOR IMPORT CATEGORY, AND IN CATEGORIES SUCH AS CLOTHING AS MANY AS FIVE IMPORT GROUPS ARE FORECAST. HOW THIS SYSTEM WILL WORK IS HARD TO PREDICT; IT IS IN ANY CASE BIG STEP AWAY FROM HIGHLY INDIVIDUALISTIC TRADITION OF MAURITANIAN MERCHANTS.

9. ONE MAJOR AIM OF CURRENCY CHANGEOVER WAS TO SECURE COMPLETE CONTROL OVER THIS COUNTRY'S FOREIGN EXCHANGE EARNINGS AND CHANNEL THEM FOR GREATER BENEFIT OF NATIONAL DEVELOPMENT. REGIME ARGUED THAT ITS FRANC ZONE MEMBERSHIP DISADVANTAGED MAURITANIA'S OWN ECONOMIC DEVELOPMENT. GOVT HAS YET TO WIN AGREEMENT OF MIFERMA AND SOMIMA, THE FOREIGN OWNED IRON AND COPPER MINING CORPORATIONS, TO DEPOSIT THEIR FOREIGN EXCHANGE EARNINGS IN THE NEW CENTRAL BANK. THESE TWO CORPORATIONS ARE, IN MAURITANIAN TERMS, GOLIATHS WHICH TOGETHER ACCOUNT FOR OVER 80 PERCENT OF THIS COUNTRY'S FOREIGN EXCHANGE EARNINGS. GOVT HAS LONG BEEN CRITICIZED BY DISSIDENTS IN COMMUNITY FOR LETTING FOREIGN COMPANIES PROFIT DISPROPORTIONATELY AT EXPENSE OF MAURITANIA. MIFERMA IS THE MOST COMMONLY SINGLED OUT VILLAIN. THESE DISSIDENTS WILL BE QUICK TO TRY CREATE POLITICAL EMBARRASSMENT FOR REGIME IF, AFTER ALL OF PRESIDENT'S BOASTS, MIFERMA AND SOMIMA DO NOT AGREE TO ARRANGEMENT GIVING GIRM SUBSTANTIAL NEW MEASURE CONFIDENTIAL

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OF CONTROL OVER THEIR EARNINGS.

10. OUR CONVERSATIONS WITH COMPANY OFFICIALS IN RECENT WEEKS INDICATE AWARENESS THEY CANNOT AFFORD APPEAR RIGIDLY OPPOSED TO GIRM'S EFFORT TO DERIVE MORE BENEFIT FROM THEIR FOREIGN EXCHANGE EARNINGS. AT SAME TIME MANAGEMENT OF BOTH FLATLY OPPOSE RELYING ON CREAKY MAURITANIAN BUREAUCRACY TO APPROVE EVERY EXCHANGE TRANSACTION FOR COMPANY'S DAY-TO-DAY OPERATIONS. MIFERMA ESTIMATES IT MAKES 25,000 DISTINCT TRANSACTIONS ANNUALLY AND ARGUES THAT ONLY BY DEPOSITING THE BULK OF ITS FOREIGN EXCHANGE IN A EUROPEAN BASED BANK WILL IT HAVE NECESSARY OPERATING FLEXIBILITY. AT PRESENT, NEGOTIATIONS REMAIN SECRET AND WE BELIEVE AUTHORITIES DO NOT INTEND TAKE PRECIPITATE ACTION. THEY ARE WELL AWARE THEIR INCAPACITY TO MANAGE EITHER INDUSTRY IN EVENT NATIONALIZATION.

11. COMMENT. FOREGOING ADDS UP TO FORMIDABLE LIST OF PROBLEMS FACING REGIME. THE RITUAL TELEGRAMS CONTINUE TO BE READ OUT ON NATIONAL RADIO PRAISING THE PRESIDENT FOR SECURING NATIONAL HONOR AND INDEPENDENCE THROUGH ISSUING THE NEW CURRENCY. SOME OUTSIDE OBSERVERS SPECULATE THAT COINCIDENCE OF CURRENCY CHANGEOVER WITH UNSETTLING EFFECTS OF DROUGHT ON ECONOMY MAY HAVE CREATED MAJOR POLITICAL PRESSURES. HOWEVER, TO ALL APPEARANCES MAURITANIANS SEEM TO US TO HAVE ACCEPTED NEW ORDER AND ALL ITS POTENTIAL CONSTRAINTS IN PHLEGMATIC SPIRIT OF "DADDAH KNOWS BEST."
MURPHY

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